

# **MINUTES**

## **MICHIGAN FOREST FINANCE AUTHORITY (MFFA or Authority)**

### **Board of Director's Meeting**

**Thursday, June 8, 2006**

**Stevens T. Mason Building**

**6<sup>th</sup> Floor, Conference Room 6-East**

**Lansing, Michigan**

### **AUTHORITY BOARD OF DIRECTOR'S PRESENT**

Mr. Joseph Fielek, Director, Bureau of Bond Finance, Department of Treasury (Chair)  
(Representing State Treasurer Robert Kleine)  
Director Rebecca A. Humphries, Department of Natural Resources (DNR) (Vice-Chair)  
Mr. Martin Gibbs, Department of Labor & Economic Growth (DLEG)  
(Representing Director Robert Swanson, DLEG)  
Mr. Paul Eisele, Consultant  
Mr. Shawn Hagan, The Forestland Group  
Mr. Garrett Johnson, The Nature Conservancy  
Ms. Karen Potter-Witter, Michigan State University, Department of Forestry  
Mr. Kelvin Smyth, NewPage Corporation  
Mr. Warren Suchovsky, Suchovsky Logging

### **MICHIGAN FOREST FINANCE AUTHORITY OTHERS PRESENT**

Mr. Terrence P. Grady, Office of the Attorney General (AG)  
Ms. Lisa Hagan, Office of the AG  
Ms. Lynne Boyd, Forest, Mineral and Fire Management (FMFM)/DNR  
Mr. Ron Murray, FMFM/DNR  
Ms. Sandy Simpson, FMFM/DNR

### **CALL TO ORDER**

**Chair Fielek** called the Michigan Forest Finance Authority Board meeting to order at 2 p.m. and welcomed attending board members and audience.

**Chair Fielek** introduced Mr. Tom Saxton as the new Deputy Treasurer, Bureau of Bond Finance. Mr. Saxton is replacing Ms. Cynthia Faulhaber who recently retired from state service.

### **APPROVAL OF AGENDA**

**Chair Fielek** asked for approval of the meeting Agenda.

**MOTION:**     **Mr. Smyth** made a motion, supported by **Mr. Suchovsky**, to adopt the MFFA, Board of Director's Meeting Agenda. Motion carried.

## **APPROVAL OF MINUTES**

**MOTION:** **Mr. Suchovsky** made a motion, supported by **Ms. Potter-Witter**, to approve the April 12, 2006 meeting minutes. Motion carried.

## **OVERVIEW OF BONDING PROCESS PRESENTATION**

**Mr. Wayne Workman**

**Robert W. Baird & Company, Incorporated**

**Traverse City, Michigan**

**Mr. Workman** explained that MFFA's statute allows for limited obligation bonding power versus general obligation bonding power. **Mr. Workman** explained that a limited obligation revenue bond financing is structured similar to a mortgage. Steps to limited obligation revenue bonding were shared by **Mr. Workman** as follows:

- Define the program/project where bond proceeds are to be spent and paid back. Adhere to federal tax guidelines. Be specific with funding proceeds.
- Prepare independent feasibility study for program revenues (if first time financing); after spending bond proceeds, pay off bonds with cushion (coverage).
- Utilize a financing team such as: program agency staff, underwriter, financial advisor, bond counsel and Attorney General, rating agencies, trustee, and credit enhancers.

**Mr. Workman** also explained that tax exempt bonds must meet the requirements of the Internal Revenue Code, specifically Section 103. **Mr. Workman** described methods of selling bonds, such as negotiated and competitive sales, and described the use of a disclosure document (commonly known as an official statement).

**Mr. Workman** stated that the timing for issuance is approximately from three to six months. This involves project planning, feasibility study, request for proposals, documents, cash flows, ratings.

**Mr. Workman** provided information on allocation of funding for specific projects/programs. Discussion continued regarding definition of capital expenditures versus operational expenditures and to seek projects that generate enough revenue to pay off the bonds.

## **DNR VISION FOR THE AUTHORITY**

**Director Rebecca A. Humphries, DNR**

**Director Humphries** referred the Board members to item entitled, *Michigan Forest Finance Authority – Agency Relationships, Duties, and Responsibilities* located on page 65 of the meeting packet. This item was shared at the June 1, 2006 NRC Finance and Administration Committee meeting for its review as well.

**Director Humphries** discussed the DNR's vision for the MFFA and the importance of commitment among the Authority, the DNR, NRC, Treasury Department, DLEG, and AG's Office. The Board members were asked to review two draft resolutions (on page 66 – 69 of the meeting packet) entitled, *Decision-making Processes* and *Request for Transfer of Funding*.

Discussion on these proposals is to occur at the special meeting scheduled on Wednesday, July 26, 2006. The DNR, MFFA, Treasury, and the AG's Office are working to develop a Memorandum of Understanding (MOU) regarding utilization of the DNR staff, issuing of contracts, and technical language contained in Public Act 451 of 1994 relative to the Authority. **Director Humphries** commented on the management of the grant moneys to be received by the Authority from the tobacco securitization bond issuance. The DNR is to provide a list of projects to the Board eligible for funding under the statutory requirements.

**Director Humphries** recommended **Ms. Potter-Witter** and **Mr. Suchovsky** assist in drafting the MOU for review by Board members and Departments. **Director Humphries** will provide meeting dates and set timelines to accomplish this task.

**Mr. Terry Grady** described in detail the powers of the Authority as described in sections of the Public Act 451 of 1994, with specific emphasis on contracting powers of the Authority and the DNR. **Mr. Grady** discussed the role of the MFFA standing committees and the approach for presenting subcommittee recommendations to the Board.

Mr. Grady also described the Forest Development Fund (FDF) and informed the Authority that the FDF is eligible to receive \$26M from the proceeds of the tobacco securitization bond issuance. Currently the \$26M is invested by Treasury (as are other state funds). **Mr. Grady** explained the fiduciary responsibility and other financial mechanisms related to state bond funds. Board members discussed the common cash process and various funding sources utilized by the MFFA.

**MOTION: Director Humphries** made a motion, supported by **Mr. Smyth**, to discuss fund balances/investment returns at future meetings. Motion carried.

Discussion ensued regarding the powers of the Board regarding investments.

### **MFFA PROPOSED PROJECTS**

**Director Humphries** discussed the letter submitted by the Timber & Markets Subcommittee, dated May 25, 2006, to State Treasurer Robert Kleine supporting the proposed list for the Working Forests for the 21<sup>st</sup> Century. The three projects named are Red Pine Project; Northern Hardwood Timber Stand Improvement Activities, and Integrated Forest Monitoring, Assessment and Prescription (IFMAP). The Board members were urged to provide additional projects for review as well. Discussion continued regarding bio-mass research and members of the Timber & Markets Subcommittee commented on a recent presentation by NextEnergy made at their June 8, 2006 meeting.

**MOTION: Mr. Eisele** made a motion, supported by **Mr. Suchovsky**, to add biomass to the list of projects.

Addition discussion ensued relative to developing a list of projects with objectives and definitions, and adding the Red Pine, Northern Hardwood Timber Stand Improvement Activities, and IFMAP projects to the list for further investigation and implementation.

**MOTION:** **Mr. Eisele** made a motion, supported by **Mr. Suchovsky**, to amend the motion to include extending the time for consideration of the new projects at the next committee meeting of the Whole. Motion carried.

**MOTION:** **Mr. Eisele** made a motion, supported by **Mr. Suchovsky** to add the bio-mass feasibility study as part of the recommended activities for subcommittee to review and to extend time for consideration of the new projects at the next Authority meeting. Motion carried.

**Mr. Ron Murray** gave overview and detail of the Red Pine, Northern Hardwood, and IFMAP projects. The Board discussed the investment and operating expenses and certification requirements. The Board members suggested revisiting other funding mechanisms, but need to review to determine if mechanisms are bondable. **Mr. Murray** will provide projects updates at the next meeting.

### **PROPOSED RESOLUTIONS**

**Mr. Murray** explained the draft resolutions *Request for Proposals (RFP)/Economic Analysis Resolution No. 2006-03* and *Funding RFP Request (up to \$25,000) Resolutions No. 2006-04*.

The DNR staff is fine-tuning the RFP and seeking the Board's review, with comments to **Mr. Murray** for discussion at the Board's next meeting.

### **MFFA SUBCOMMITTEES**

#### **Timber & Markets – Mr. Paul Eisele, Chair**

Timber & Markets Subcommittee met on May 25, 2006. The Subcommittee members agreed to support the proposed list for the Working Forests for the 21<sup>st</sup> Century. Each member will utilize the priority list for the activity of the Authority. The Subcommittee believes the following three projects are top priority and area as follows: 1) Red Pine Project; 2) Northern Hardwood Timber Stand Improvement Activities; and 3) Integrated Forest Monitoring, Assessment and Prescription (IFMAP). Discussion ensued relative to bio-mass research and a presentation at the Timber & Markets Subcommittee scheduled on June 8, 2006. **Mr. Eisele** took the lead and requested a presentation by Mr. Ryan Waddington, NextEnergy.

Subcommittee held its meeting on June 8, 2006. **Mr. Eisele** referenced the priority list (Red Pine Project, Northern Hardwood, and IFMAP) and shared a brief overview of the presentation by NextEnergy on the bio-fuels/bio-energy market opportunity. George Berghorn, MFPC, Gaila Gilliland, Crawford County Economic Partnership, Wayne Hellerstedt, Newberry County Economic Development, and Tom Barnes, Michigan Association of Timberman (MAT) also attended the subcommittee's meeting.

#### **Protection and Research – Mr. Garrett Johnson, Chair**

No report. The committee was unable to meet.

## **PUBLIC COMMENTARY**

**Mr. Tom Barnes**, MAT, shared support for a feasibility study for bio-mass. Discussed critical issues related to the timber industry.

## **INFORMATION ITEMS**

**Director Humphries** briefly discussed Senate Bill 1094, which provides boiler plate language which mentions use of the securitized funds and various reporting requirements. No action was requested for Board members on this legislation. **Director Humphries** also described House Bill 5628, which removes from timber revenue from the Forest Development Fund to other local units of government. House Bill 5628 will be coming up for discussion in the Senate Committee On Agriculture, Forestry And Tourism. Board members were asked to provide comments, or position, on House bill 5628 to their respective organizations, if they desired to comment individually.

## **NEXT MEETING DATE**

Board members concurred to hold a special meeting as follows:

**Wednesday, July 26, 2006**

2 p.m. – 5 p.m.

Mason Building

6<sup>th</sup> Floor, 6-East Conference Room

Lansing

Board members concurred to hold its regular meeting as follows:

**Thursday, September 28, 2006**

2 p.m. – 5 p.m.

Mason Building

6<sup>th</sup> Floor, 6-East Conference Room

Lansing

## **ADJOURNMENT**

**MOTION: Mr. Eisele** moved to adjourn, seconded by **Mr. Smyth**.

Meeting adjourned at 5:03 p.m.